



AmInvestment Bank

Company report

APEX HEALTHCARE

(APEX MK EQUITY, APER.KL)

17 Aug 2022

Record quarterly profit

BUY

(Maintained)

AmInvestment Bank

Team Coverage

03-2036 2290

Rationale for report: Company result

Price	RM3.10
Fair Value	RM3.73
52-week High/Low	RM3.12/RM2.33

Key Changes

Fair value	f
EPS	f

YE to Dec	FY21	FY22F	FY23F	FY24F
Revenue (RM mil)	770.8	861.9	910.0	960.9
Core net profit (RM mil)	60.9	76.6	81.0	86.3
FD Core EPS (sen)	12.8	16.1	17.0	18.1
FD Core EPS growth (%)	5.4	25.0	5.7	6.4
Consensus Net Profit (RM mil)	-	69.1	72.0	76.1
DPS (sen)	11.5	6.1	6.5	6.9
PE (x)	24.1	19.3	18.3	17.2
EV/EBITDA (x)	15.0	15.0	14.1	13.2
Div yield (%)	3.8	2.0	2.1	2.2
ROE (%)	12.2	14.4	14.0	13.7
Net Gearing (%)	nm	nm	nm	nm

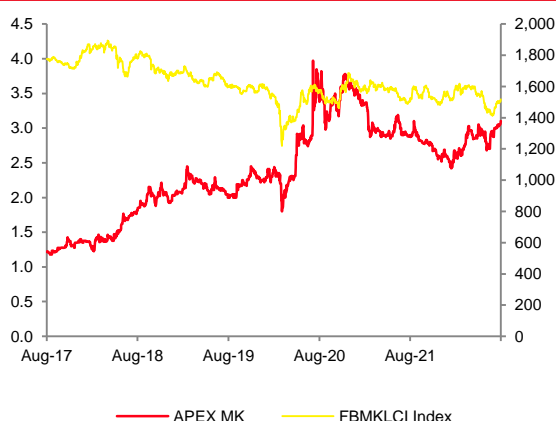
Stock and Financial Data

Shares Outstanding (million)	477.3
Market Cap (RMmil)	1,479.6
Book Value (RM/share)	1.06
P/BV (x)	2.9
ROE (%)	12.2
Net Gearing (%)	-

Major Shareholders	Apex Pharmacy Holdings (39.9%) Washington H. Soul Pattinson and Company (29.7%)
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Free Float (%)	20.9
Avg Daily Value (RMmil)	0.3

Price performance	3mth	6mth	12mth
Absolute (%)	9.5	23.1	9.9
Relative (%)	11.3	30.0	8.7



Investment Highlights

- We maintain BUY on Apex Healthcare (Apex) with a higher fair value (FV) of RM3.73, based on a rolled-forward FY23F PE of 22x. This is at 0.5 standard deviation above its 4-year average of 20x, with a neutral 3-star rating.
- The higher fair value mainly stems from our FY22F-24F earnings increase of 7%/8%/9% as Apex's 1HFY22 core net profit of RM38.6m came in above expectations, accounting for 54% of our earlier FY22F earnings and 56% of consensus. As a comparison, 1HFY21 accounted for 37% of FY21 core net profit.
- An interim 2QFY22 dividend of 3.0 sen/share has been declared (implying a 1HFY22 payout of 37%), which beats our earlier assumption of 5.7 sen/share in FY22F as Apex historically tends to declare a higher 2H dividend. Hence, we revised upwards our FY22F dividend by 7% to 6.1 sen/share.
- On a YoY basis, Apex's 2QFY22 core earnings soared by 85% to an all-time record RM23.6mil, spurred by a (i) 15% revenue growth from strong demand for pharmaceuticals and consumer healthcare products; (ii) better gross profit margin (+2.2ppt) thanks to the increased share of higher margin manufacturing division; and (iii) substantial associate contribution of RM7m (10.3x) from the group's 40%-owned Straits Apex.
- Apex accelerated the launch of 2 paracetamol products in this quarter to address market shortages as well as the commissioning of another blister packing line in Melaka-based SPP NOVO, which expanded its annual installed capacity for tablets and capsules by 36%.
- On a QoQ basis, Apex's 2QFY22 core earnings improved by 58% despite revenue contracting by 3%. The stronger earnings is attributed to the strong associate contribution and higher gross profit margin (+1.3ppt) due to the share of revenue from higher margin manufacturing division increasing to 9.9% from 8.5% in 1QFY22.
- In previous analyst briefing, Apex expected that the stronger growth in flu-related medicine such as paracetamol, cough/flu medication and lozenges could partially offset the sales moderation for face masks, oximeters and test kits as the country transitions towards Covid-19 endemic status.
- We believe the demand for flu-related medicine is supported by rising flu cases in Malaysia that are higher than 2019 levels (Exhibit 2). This abnormal phenomenon could be attributed to (a) low population immunity due to lack of exposure to influenza over the last 2 years and (b) low flu vaccination uptake in Malaysia, according to The Malaysian Influenza Group. In addition, Omicron, a Covid 19 variant manifesting milder symptoms, is becoming a community respiratory illness.

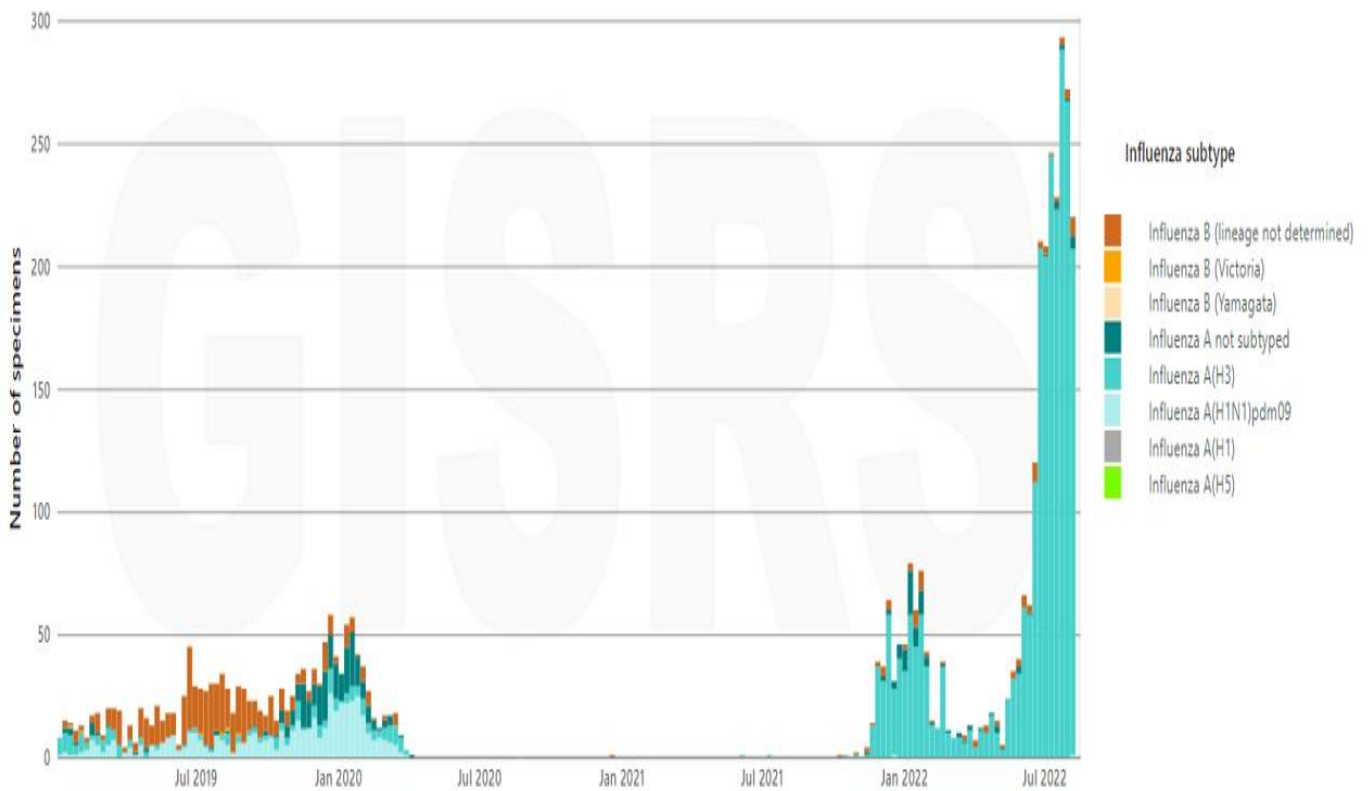
- Apex plans to capitalise on improving prospects by commencing its new cough/cold syrups production line in 3QFY22, which could double current capacity.
- Furthermore, 40%-owned Straits Apex has secured export orders in 2HFY22 which are higher than the executed orders in 1HFY22. With strong demand ahead, the associate plans to expand production space by 30% in 4QFY22.
- Apex has been enjoying strong growth over the past 20 years with revenue rising at a decent CAGR of 9% and earnings 10% (Exhibit 3), anchored by an ageing population, public health education advancement and steady healthcare expenditure increase. Apex also exhibited resilience and flexibility during the Covid-era via rapid identification and supply of in-demand products. Additionally, Apex's net cash position of RM130mil represents a significant 9% of its market cap.
- The stock currently trades at a compelling FY23F PE of 18x, below its 4-year average of 20x. We will be providing further updates following an analyst briefing later today.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	2QFY21	3QFY21	4QFYQ21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Revenue	182.6	211.1	197.7	215.9	209.2	(3.1)	14.6	362.0	425.2	17.4
Gross profit	37.3	44.3	41.5	46.0	47.3	2.9	26.9	75.1	93.3	24.3
EBITDA	19.5	22.3	23.9	22.2	24.9	12.2	27.9	38.7	47.8	23.4
EBIT	15.6	18.2	19.9	18.3	20.9	14.2	34.2	31.0	40.0	29.0
Share of associates	0.7	0.5	5.6	0.9	7.2	>100	>100	1.0	8.1	>100
Profit before tax	16.1	18.6	25.3	19.8	27.9	40.5	72.8	31.6	47.7	51.1
Tax	(3.3)	(4.5)	(4.6)	(4.0)	(4.4)	(7.8)	(32.4)	(6.9)	(8.4)	(22.7)
Net profit	12.8	14.0	20.7	15.8	23.5	48.9	83.2	24.7	39.3	58.9
Core net profit	12.8	13.9	20.7	15.0	23.6	58.0	85.1	24.4	38.6	57.8
FD EPS (sen)	2.7	2.9	4.4	3.2	5.0	57.9	85.1	5.2	8.1	57.8
Gross DPS (sen)	2.5	0.0	9.0	0.0	3.0	n/a	n/a	2.5	3.0	n/a
Gross margin (%)	20.4	21.0	21.0	21.3	22.6	1.3ppt	2.2ppt	20.7	21.9	1.2ppt
EBITDA margin (%)	10.7	10.6	12.1	10.3	11.9	1.6ppt	1.2ppt	10.7	11.2	0.5ppt
Pretax margin (%)	8.8	8.8	12.8	9.2	13.3	4.1ppt	4.5ppt	8.7	11.2	2.5ppt
Core net profit margin (%)	7.0	6.6	10.5	6.9	11.3	4.4ppt	4.3ppt	6.8	9.1	2.3ppt
Effective tax rate (%)	20.5	24.5	18.1	20.4	15.7	-4.8ppt	-4.8ppt	21.7	17.6	-4.1ppt
Segmental Revenue (RMmil)										
Manufacturing	11.7	16.6	15.2	18.4	20.8	12.8	78.3	26.8	39.2	46.6
Wholesale & Distribution	170.7	194.2	182.3	197.5	188.4	(4.6)	10.4	335.0	385.9	15.2
Corporate	0.2	0.2	0.1	0.0	0.0	10.0	(93.4)	0.3	0.0	(93.0)
Segmental PBT (RMmil)										
Manufacturing	9.0	11.5	11.9	13.0	15.0	16.1	66.6	18.1	28.0	54.9
Wholesale & Distribution	7.5	9.8	8.4	9.2	8.4	(8.6)	11.7	15.0	17.6	17.6
Corporate	0.2	(1.2)	5.9	(1.5)	5.5	>100	>100	-0.4	4.1	>100
Pretax margin (%)										
Manufacturing	22.9	25.3	25.6	25.5	26.0	0.6ppt	3.2ppt	22.5	25.8	3.3ppt
Wholesale & Distribution	4.4	5.0	4.6	4.7	4.5	-0.2ppt	0.1ppt	4.5	4.6	0.1ppt

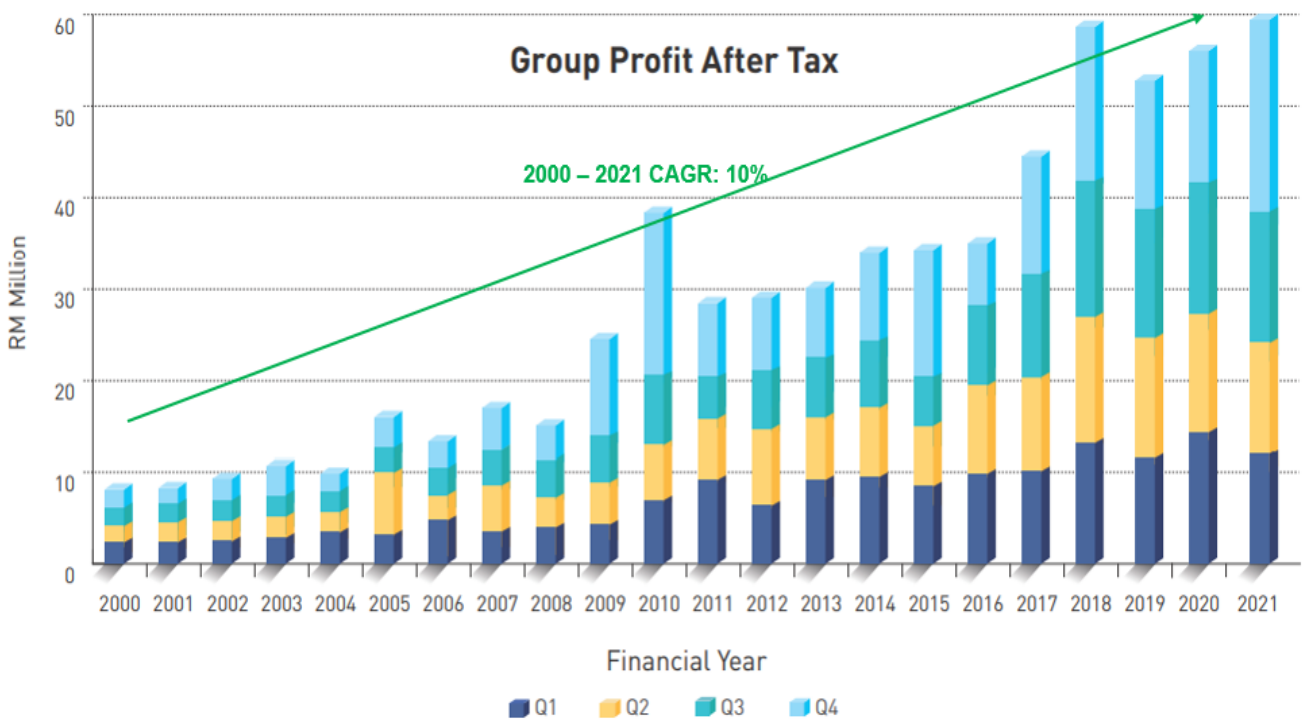
Source: AmlInvestment Bank/Apex Healthcare Bhd

EXHIBIT 2: NUMBER OF MALAYSIAN SPECIMENS POSITIVE FOR INFLUENZA BY SUBTYPES



Source: AmInvestment Bank/World Health Organisation (WHO)

EXHIBIT 3: APEX HEALTHCARE PROFIT AFTER TAX



Source: AmInvestment Bank/Apex Healthcare Bhd

EXHIBIT 4: PB BAND CHART



EXHIBIT 5: PE BAND CHART



EXHIBIT 6: ESG MATRIX

Overall	★	★	★		
Waste management	★	★			
Natural resource conservation	★	★	★		
Occupational safety + health	★	★	★	★	
Workplace diversity	★	★	★		
Employee training + wellbeing	★	★	★		
Quality assurance + safety	★	★	★	★	
Communal efforts	★	★	★	★	
Corruption-free pledge	★	★	★		
Accessibility & transparency	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised

Source: AmlInvestment Bank

EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	698.7	770.8	861.9	910.0	960.9
EBITDA	80.8	86.9	97.2	101.8	106.7
Depreciation/Amortisation	(16.4)	(16.3)	(15.5)	(15.9)	(16.3)
Operating income (EBIT)	64.3	70.6	81.7	85.9	90.4
Other income & associates	8.9	7.1	12.1	13.8	15.7
Net interest	0.6	1.0	0.4	0.8	1.5
Exceptional items	1.6	1.4	-	-	-
Pretax profit	70.2	75.4	92.9	98.8	105.2
Taxation	(14.2)	(16.0)	(16.3)	(17.8)	(18.9)
Minorities/pref dividends	-	-	-	-	-
Net profit	56.0	59.4	76.6	81.0	86.3
Core net profit	57.7	60.9	76.6	81.0	86.3
Balance Sheet (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Fixed assets	176.9	172.8	168.4	164.7	160.0
Intangible assets	1.4	2.6	2.6	2.6	2.6
Other long-term assets	45.2	53.3	65.4	79.2	95.0
Total non-current assets	223.5	228.7	236.4	246.5	257.6
Cash & equivalent	172.9	194.1	43.9	58.1	81.8
Stock	92.1	95.4	108.3	113.3	120.6
Trade debtors	129.3	158.8	193.3	209.0	218.1
Other current assets	3.1	3.2	116.6	123.4	129.9
Total current assets	397.4	451.4	462.1	503.7	550.4
Trade creditors	117.7	143.3	150.1	163.4	170.6
Short-term borrowings	22.0	6.6	6.6	6.6	6.6
Other current liabilities	1.5	2.0	2.0	2.0	2.0
Total current liabilities	141.1	151.9	158.7	172.1	179.2
Long-term borrowings	5.8	14.8	15.3	5.3	5.3
Other long-term liabilities	6.0	6.6	6.6	6.6	6.6
Total long-term liabilities	11.8	21.4	21.9	11.9	11.9
Shareholders' funds	467.8	506.8	554.3	604.5	658.0
Minority interests	0.1	0.1	0.1	0.1	0.1
BV/share (RM)	0.99	1.07	1.16	1.27	1.38
Cash Flow (RMmil, YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Pretax profit	70.2	75.4	92.9	98.8	105.2
Depreciation/Amortisation	16.4	16.3	15.5	15.9	16.3
Net change in working capital	20.4	(8.8)	(40.6)	(7.3)	(9.3)
Others	(21.5)	(21.1)	(26.9)	(30.6)	(33.8)
Cash flow from operations	85.5	61.9	41.0	76.9	78.4
Capital expenditure	(15.9)	(13.1)	(14.0)	(14.0)	(14.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(35.6)	(12.3)	(2.0)	(2.0)	(2.0)
Cash flow from investing	(51.5)	(25.4)	(16.0)	(16.0)	(16.0)
Debt raised/(repaid)	(2.9)	(5.9)	0.5	(10.0)	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(17.5)	(25.2)	(29.1)	(30.8)	(32.8)
Others	1.6	-	(5.9)	(5.9)	(5.9)
Cash flow from financing	(18.8)	(31.1)	(34.5)	(46.7)	(38.7)
Net cash flow	15.1	5.4	(9.5)	14.2	23.7
Net cash/(debt) b/f	71.5	86.6	93.4	83.9	98.1
Net cash/(debt) c/f	86.6	93.4	83.9	98.1	121.8
Key Ratios (YE 31 Dec)	FY20	FY21	FY22F	FY23F	FY24F
Revenue growth (%)	1.4	10.3	11.8	5.6	5.6
EBITDA growth (%)	9.9	7.7	11.8	4.8	4.8
Pretax margin (%)	10.0	9.8	10.8	10.9	10.9
Net profit margin (%)	8.0	7.7	8.9	8.9	9.0
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	20.2	21.2	17.5	18.0	18.0
Dividend payout (%)	38.2	91.9	38.0	38.0	38.0
Debtors turnover (days)	75	68	75	81	81
Stock turnover (days)	47	44	43	44	44
Creditors turnover (days)	62	62	62	63	63

Source: Company, AmlInvestment Bank Bhd estimates

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